

3 August 2009

Response to the Public Consultation on the regulation of EUAs auctioning during Phase III of the ETS (2013-2020)

In line with a general endorsement of the EU Emission Trading Scheme and its three-stage approach, StatoilHydro welcomes the EU-wide auctioning of emission allowances, and looks forward to a forthcoming regulation setting out the modalities of auctioning in Phase III (2013-2020). Some aspects of the public consultation, launched by the Commission in order to collect information relevant to this effect, deserve particular attention and are outlined in the points below.

Auctioning of spot and futures EUAs. Understandably, the auctioning of futures EUAs would help investment decisions, especially in the power sector, hence a minority of allowances for Phase III should be auctioned in this form, at least during 2011 and 2012 i.e. before the beginning of Phase III. At the same time, allowances auctioned spot can best ensure market liquidity, hence the majority of allowances should be auctioned as spot. At any rate, the Commission should undertake an independent assessment exercise in order to determine the need and the effect of front and/or back-loading the auctioning structure, and use it in order to define the exact amount of allowances to be auctioned at each point in time.

Auction Platform. While at the moment EU Member States run individual auctions in order to allocate parts of their national EUAs quotas, the best solution for Phase III would be to have a centralized EU-wide platform, pooling all the EUAs available for auction and offering them according to a clear calendar defined well in advance. Failing that, at least Member States should be made to agree on the respective auctioning calendars, as early as possible, so that auctions do not take place at the same time in two Member States, and the amount of auctioned allowances is evenly spread throughout the year.

Size and frequency of auctions. Once an auction has achieved a minimum size to be cost effective (for example the 20mn EUAs threshold set out in the Consultation Paper) then weekly or fortnightly small auctions would be the best choice in order not to distort the secondary market. Futures auctioning should be evenly spread throughout the year, while the Commission could – through the assessment exercise mentioned earlier – explore the possibility of loading the share of allowances auctioned spot towards the beginning of the calendar year, in order to allow time for an efficient allocation of them through the secondary market.

Auction Design. Single-round sealed-bid auctions, with no reserve price and pro-rata scaling of ties, would be the best design in order to ensure that prices are defined through the market mechanism, and therefore avoid distortions in the secondary market. Additionally, collusion can be effectively fought through clear rules against market abuse. Since ERGEG is assessing the possibility to introduce a general market abuse regime for EU electricity and gas markets, the EU ETS regime should also be made to comply with such regime rather than having a separate one.

Access to Auctions. Auctions should be as open as possible for direct access by all interested parties, and at least to all those players that are described as “intermediaries” in the Consultation Paper. This would reduce transaction costs, and ultimately contribute to a more liquid market.